

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSALS ONE THROUGH FIVE)

Docket No. RM2013-6

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-9 OF CHAIRMAN'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to Questions 1 through 9 of Chairman's Information Request No. 1. The request was issued on September 10, 2013, with responses due today. Each question is stated verbatim and followed by the response.

The responses to Questions 3 and 5 required redactions. Unredacted versions of those responses appear in USPS-LR-RM2013-6/NP2.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1 (Proposal One)

Please refer to Proposal One at page 3, footnote 1, which states, "Calculations based on estimated Alaska Bypass Service costs of \$105.4 million in FY 2012." A review of the FY 2012 cost segment 14 workpapers, ACR2012-LR-32, shows Alaska Air costs of \$131.4 million which are 100 percent attributable before the application of the Alaska Air Adjustment. Please explain the derivation of the estimated Alaska Bypass Service cost of \$105.4 million as used in the determination of the impact of Proposal One and reconcile this estimate with the \$131.4 million shown in the Cost Segment 14 workpapers.

RESPONSE:

The following table shows the specific general ledger accounts and respective amounts for the Alaska Non-Preferential Air cost pool as shown in ACR2012-LR-32.

GL Account	Brief Explanation	Amount
53561	Intra-Alaska Bush Non-Priority Linehaul	\$34.10 M
53562	Intra-Alaska Mainland Non-Priority Linehaul	\$43.30 M
53565	Intra-Alaska Bush Non-Priority Terminal Handling	\$19.53 M
53566	Intra-Alaska Mainland Non-Priority Terminal Handling	\$29.62 M
53599	Excise Taxes (Portion)	\$ 4.84 M
Total		\$131.39 M

The costs incurred for the Alaska Bypass Service are a subset of those costs in the table and are tracked by the Surface Air Management System – Alaska (SAMS-Alaska).

The Alaska Bypass Service costs, including excise taxes, totaled \$105.4 million in FY2012. The remaining \$26 million are costs incurred for transporting other postal products on the Alaska Non-Preferential network. Proposal One maintains the current attribution method. Currently, the attributable portion of the Non-Preferential Alaska Air network is calculated by multiplying its accrued costs by the Alaska Air Adjustment factor.

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Question 2 (Proposal One)

The table below shows the estimated impact of the proposed change in the calculation of the Alaskan Air Adjustment, using component 681, Domestic Alaska Air. Please confirm the estimated impact of Proposal One as shown in the table, or if not confirmed, please explain.

<i>Component Name</i>	Domestic Alaska Air Unadjusted	Alaska Adjustment Factor [Inserted in all non-total rate categories]	Adjusted Domestic Alaska Air	Proposed Alaska Adjustment Factor [Inserted in all non-total rate categories]	Proposed Adjusted Domestic Alaska Air	Difference
<i>Component Number</i>	(681) (\$ 000)	0510	0681 (\$ 000)	0510	0681 (\$ 000)	(\$ 000)
DOMESTIC MARKET DOMINANT PRODUCTS						
First-Class Mail						
Single Piece Letters	171	0.0702	12	0.1433	24	12
Single Piece Cards	0	0.0702	0	0.1433	0	0
Total Single Piece Letters and Cards	171		12		24	12
Presort Letters	0	0.0702	0	0.1433	0	0
Presort Cards	0	0.0702	0	0.1433	0	0
Total Presort Letters and Cards	0		0		0	0
Flats	78	0.0702	5	0.1433	11	6
Parcels	46	0.0702	3	0.1433	7	3
Total First-Class	294		21		42	21
Standard Mail						
High Density and Saturation Letters	18	0.0702	1	0.1433	3	1
High Density and Saturation Flats and Parcels	23	0.0702	2	0.1433	3	2
Carrier Route	718	0.0702	50	0.1433	103	52
Letters	352	0.0702	25	0.1433	50	26
Flats	310	0.0702	22	0.1433	44	23
Not Flat-Machinables and Parcels	35	0.0702	2	0.1433	5	3
Total Standard Mail	1,456		102		209	106
Periodicals						
In County	0	0.0702	0	0.1433	0	0
Outside County	239	0.0702	17	0.1433	34	17
Total Periodicals	239		17		34	17
Package Services						
Alaska Bypass	105,400	0.0702	7,399	0.1433	15,104	7,705
Bound Printed Matter Flats	35	0.0702	2	0.1433	5	3
Bound Printed Matter Parcels	125	0.0702	9	0.1433	18	9
Media and Library Mail	176	0.0702	12	0.1433	25	13
Total Package Services	105,736		7,423		15,152	7,729
U.S. Postal Service	276	0.0702	19	0.1433	40	20
Free Mail	0	0.0702	0	0.1433	0	0
Total Domestic Market Dominant Mail	108,001		7,582		15,477	7,895
Total Domestic Market Dominant Attributable Costs	108,001		7,582		15,477	7,895
Total Domestic Competitive Attributable Costs	23,390		1,642		3,352	1,710
INTERNATIONAL MAIL AND SERVICES	0	0.0702	0	0.1433	0	0
TOTAL ATTRIBUTABLE COSTS	131,391		9,224		18,829	9,605
OTHER COSTS	0		122,168		112,563	-9,605
TOTAL COSTS	131,391		131,391		131,391	0

RESPONSE:

Confirmed. However, the mechanics of Proposal One shift the implementation of the Alaska Air Adjustment factor from the CRA Model to the CS14 workpapers. The

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table supplied with the question suggests the Alaska Air Adjustment factor still being applied in the CRA model rather than in the CS14 workpapers. If Proposal One is adopted, the figures in ACR2012-LR-32, sheet CS14, tab 'Outputs to CRA', column E would equal the figures in ACR2012-LR2, sheet CRpt, tab 'CS14', column D. Currently, those figures do not match because the Alaska Air Adjustment factor is applied outside of the CS14 workpapers.

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Question 3 (Proposals Two and Three)

Please provide the proposed distribution factors for both Proposal Two and Proposal Three with the competitive products distributions separated by product.

RESPONSE:

The requested distribution factors are supplied in the following tables.

[Tables Redacted]

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Question 4 (Proposal Three)

Please confirm that the changes in attributable costs by class and product, as shown in the table below, reflect the cost changes for Highway and Rail Plant Load transportation costs as proposed. If not confirmed, please provide the differences in costs by class and product, including individual competitive products, as developed using the proposed distribution proxy.

	Current Highway Plant Load	Proposal Three Highway Plant Load	Highway Plant Load Difference		Current Rail Plant Load	Proposal Three Rail Plant Load	Rail Plant Load Difference
	(\$ 000)	(\$ 000)	(\$ 000)		(\$ 000)	(\$ 000)	(\$ 000)
First-Class	1,520	1,648	129		0	266	266
Standard Mail	7,276	8,635	1,359		377	1,395	1,018
Periodicals	3,020	3,146	126		2,131	508	-1,623
Package Services	391	0	-391		1	0	-1
Total Market Dominant Products	12,210	13,429	1,219		2,509	2,169	-340
Competitive Products	3,323	2,105	-1,219		0	340	340
International Mail	0	0	0		0	0	0
Total Attributable	15,534	15,534	0		2,509	2,509	0
Total Institutional	1,771	1,771	0		25	25	0
Total Costs	17,305	17,305	0		2,533	2,533	0

RESPONSE:

Confirmed.

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Question 5 (Proposal Four)

Refer to Proposal Four, at page 12, where it states that “the residual CS14 Purchased International Surface Transportation costs are *approximately equal* to the ICRA’s Imputed costs for Outbound Canada Air Mail Diverted to Highway Transportation.” (Emphasis added.) Also, refer to the Excel file Attachment 1.xls referenced in Proposal Four. Please provide, and identify where in Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file cs14.fy12.nonpublic.dec06.xls, the cost figures that comprise the residual CS14 Purchased International Surface Transportation costs, which are approximately equal to the ICRA’s imputed costs for Outbound Canada Air Mail Diverted to Highway Transportation shown in the Excel file Attachment 1.xls, worksheet tab Adjusted Intl Transportation, cells P13 and Q13.

RESPONSE:

The referenced aggregate Purchased International Surface Transportation cost is found in Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file cs14.fy12.nonpublic.dec06.xls, tab <FY2012>, cell K173. That figure is [REDACTED].

The ICRA’s imputed costs for Outbound Canada Air Mail Diverted to Highway Transportation shown in the Excel file Attachment 1.xls, worksheet tab <Adjusted Intl Transportation>, cells P13 and Q13 add to [REDACTED].

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Question 6 (Proposal Four)

Refer to Proposal Four, and the Excel file Attachment 1.xls. In worksheet tab Outbound Airmail kg, cell O7, the total outbound air mail kilograms for Canada non-ISAL letterpost consist of the sum of alc, acd, fcml-ltr, and pmi_env, *excluding* aip. In worksheet tab Air and Surface Trans Costs, the imputed air transportation costs to Canada for letterpost consist of alc, acd, fcml-ltr, pmi_env, *and* aip. Please reconcile these two worksheets.

RESPONSE:

There are two different categorizations of mail on the two referenced tabs. While International Priority Airlift (aip) is Letter-post, it is not included in the pool of mail that is diverted by Operations from Air to Highway Transportation to Canada. Hence, it is not included in the aggregate Letter-post subject to diversion in Excel file Attachment 1.xls, worksheet tab <Outbound Airmail kg>, cell O7, that is used in the calculations on row 8 of the <Airmail Diverted to Highway> tab. The labeling in the <Outbound Airmail kg> tab should have been more descriptive to reflect this.

In worksheet tab <Air and Surface Trans Costs> it can be seen that no aip has been diverted to Highway Transportation, along with several other Air Products. However, it is included in the aggregation of non-ISAL Air Transportation products along with all other non-ISAL Air Products in preparation for benchmarking to the corresponding CS14 Purchased International Transportation totals.

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Question 7 (Proposal Four)

Refer to Proposal Four, and the Excel file Attachment 1.xls. In worksheet tab Booked Intl Transportation, Canada Air Transportation costs for isl and imb shown in cells J7 and K7 include both Canada Air Transportation and Canada Air Diverted to Highway costs from worksheet tab Adjusted Intl Transportation. Please confirm that in worksheet tab Booked Intl Transportation, the Canada Air Transportation costs for isl and imb should include only Canada Air Transportation costs from worksheet tab Adjusted Intl Transportation. If not confirmed, please explain.

RESPONSE:

Not confirmed. The Canada Air Transportation costs in worksheet tab <Booked Intl Transportation> for isl and imb shown in cells J7 and K7 include both Canada Air Transportation and Canada Air Diverted to Highway costs from worksheet tab <Adjusted Intl Transportation> in order to provide a true representation of what was contained in the Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file Reports (Booked).xls. As stated in Proposal 4 at the top of page 12, "...for the FY 2012 ICRA, ISAL was inadvertently left as the Adjusted Imputed result in Reports (Booked)."

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Question 8 (Proposal Four)

Refer to Proposal Four, at page 19, where it states, in referring to the Excel file Attachment 1.xls, that “[t]he <Intl Trans Without Diversion> [tab] shows the *Imputed* International Transportation costs by Product for Canada and the rest of the world if all of Canada’s Outbound Air Mail were transported by Air, and none of it were diverted to Highway.” (Emphasis added.) Also, refer to worksheet tabs Intl Trans Without Diversion and Adjusted Intl Transportation. Please explain why the imputed Total Additive International Air Transportation Cost from ICM Costing Module (\$000) for Non-ISAL and ISAL in worksheet tab Intl Trans Without Diversion differs from the corresponding amounts in worksheet tab Adjusted Intl Transportation. Also, please provide a citation to the ICM Costing Module, identifying the Excel file, worksheet tab, and cell references where the cost figures for Non-ISAL and ISAL can be found.

RESPONSE:

The Total Additive International Air Transportation Cost from ICM Costing Module (\$000) for Non-ISAL and ISAL in worksheet tab <Adjusted Intl Transportation> can be traced to Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file ICM Costing (Imputed).xls as follows:

In Excel file Outbound Calcs.xls, tab <trnadj>, cells R142 and R148, the referenced Non-ISAL and ISAL cost figures from Attachment 1, tab <Adjusted Intl Transportation> can be found. The Label in cell R141 of <trnadj> should more accurately be “From Imputed ICM Costing.” The figures in question are referred to as “Additive International Air Transportation Cost from ICM Costing Module” because they are computed from NSA weights and pieces that are processed through the ICM Costing Module and are not contained in the weight and volume data processed by the ICRA proper. The remaining NSA weights and pieces are contained in the volumes processed by the ICRA proper, and the two sets of information must be sorted out for reporting.

The Non-ISAL figure in cell R142 of the <trnadj> tab can be seen to be the sum

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of the four figures immediately below. These are the International Transportation costs (\$000) from the ICM Costing (Imputed).xls file for PMI-P, GDEO Admail, PMI-E, and EMI. Similarly, the ISAL figure in cell R148 of the <trnadj> tab is the sum of the two figures beneath, which correspond to GBE and GBE_Mbags International Transportation costs from the ICM Costing (Imputed).xls file.

The addends described above are obtained from a pivot table contained in Excel file Reports.xls, tab <pivot5>, starting on cell A160. The Non-ISAL addends can be found in cells K218, K179, K213, and K166, respectively. The ISAL addends come from cells K55 and K46.

The pivot table just referenced on tab <pivot5> of Reports.xls is sourced with data from the table at the top of the <pivot5> tab. This table, in turn, represents a slightly processed (divide numbers by 1,000, modify ICM Contract Type labels, etc.) version of the table at the far right top.

The table at the far right top of the <pivot5> tab mentioned above has been manually pasted into place from data copied from the <Data for ICRA> tab of Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file ICM Costing (Imputed).xls. The <Data for ICRA> tab consists of a pivot table that is sourced from the data in the <Group_Shared_Results> tab, and represents the end result of NSA processing in the ICM Costing (Imputed).xls module.

Similarly, the Total Additive International Air Transportation Cost from ICM Costing Module (\$000) for Non-ISAL and ISAL in worksheet tab <Intl Trans Without Diversion > can be traced to Library Reference USPS-FY12-NP2 (Revised 2-8-13), Excel file ICM Costing (Booked).xls, tab <Data for ICRA>:

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In Excel file Outbound Calcs.xls, tab <trnadj>, cells P142 and P148, the referenced Non-ISAL and ISAL cost figures from Attachment 1, tab < Intl Trans Without Diversion > can be found. The Label in cell P141 of <trnadj> should more accurately be "From Booked ICM Costing."

The narrative above for the figures from Attachment 1 tab < Adjusted Intl Transportation> applies equally to the figures identified in the previous paragraph with the following substitutions: replace Reports.xls by Reports (Booked).xls, and replace ICM Costing (Imputed).xls by ICM Costing (Booked).xls.

The Total Additive International Air Transportation Cost from ICM Costing Module (\$000) for Non-ISAL and ISAL in worksheet tab < Adjusted Intl Transportation > differs from the corresponding amounts in worksheet tab < Intl Trans Without Diversion> because the former is the result of the ICM Costing (Imputed) using unit costs from the imputed Reports.xls and the latter is the result of the ICM Costing (Booked).xls module using unit costs from Reports (Booked).xls.

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Question 9 (Proposal Five)

Refer to the document entitled "Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination," dated June 26, 2013, and Response No. 3, revised July 31, 2013, which states that "the Postal Service rate schedules charged for GDEO [Admail] account for the . . . complexity and mirror the [rate] schedule [of the Canada Post Corporation]." Response No. 3 (as revised) also states that the Postal Service does not know "shipment-level details." In addition, refer to the Excel file Attachment 1.xls, worksheet tab Booked Version Before, showing the NSA partner companies shipping outbound Admail to Canada in FY 2012.

- a. Please confirm that the NSA partner companies referenced in worksheet tab Booked Version Before submit to the Postal Service a mailer manifest for each mailing listing the shape, weight per piece, and sortation-level data for all outbound Admail to Canada. If not confirmed, please explain how, in the absence of such manifests, the Postal Service determines the rates to be paid for Admail shipped by, and revenue received from, each of the NSA partner companies during FY 2012. If confirmed, please explain why the Postal Service does not use the mailer manifests from each of the NSA partner companies plus the Admail rate schedule from the Canada Post Corporation to calculate the settlement costs for each company.
- b. Please explain why mailer manifests do not provide sufficient shipment-level detail to enable the Postal Service to calculate the settlement costs for each company. In responding, please identify all shipment-level details necessary to make that calculation.

RESPONSE:

The ICRA has traditionally used the aggregate CPC payments broken out between letter mail and Admail in developing GDEO costs. The method of using weight-shares to allocate the aggregate CPC payments proved to be inaccurate and revenue shares yield much better approximations under procedures that determine USPS pricing for this product. The Postal Service did not imply that it does not know "shipment-level detail;" rather, that level of detail is not needed for the proposal. The complete statement was:

"The upshot is that, without knowing shipment-level details, it is more

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appropriate to allocate settlement cost based on revenue shares, which is easy to implement in the ICM Costing module. Since every rate component in the financial model is about 18 to 26 percent higher than the CPC mail payment schedule, as long as the mail is charged correctly on the Postal Service side and invoiced back to the Postal Service based on the same assumptions, no matter the weight the mail should achieve a contribution near the average. The proposed enhancement reflects the reality of the considerations involved in developing the rate tables for the GDEO contracts.”

The proposal presents an improved methodology the can be easily implemented in the ICM costing model without requiring additional data resources. While it is correct that mailers provide the Postal Service with the necessary level of detail to verify rates, those mailing manifests are not readily available electronically. Collecting the mailing manifests would add little additional precision to the proposal's settlement estimates, particularly for a product with relatively little revenue.